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ANNUAL REPORT 1974

NATIONAL SEA PRODUCTS LIMITED

NATIONAL SEA PRODUCTS LIMITED

ANNUAL REPORT /1974

COMPARATIVE HIGHLIGHTS

	1974	1973
Sales and other Revenue	$90,068,509	$89,409,285
Net Income	$ 330,821	$ 3,815,687
Earnings per average number of Common Shares Outstanding (1974 includes extraordinary gain of $.22)	$ .15	$ 2.43
Dividends paid per Common Share A	70.5¢	47¢
Dividends paid per Common Share B	59.9¢	39.9¢
Cash Flow	$ 3,594,450	$ 9,882,207
Cash Flow per Common Share	$ 2.33	$ 6.49
Working Capital	$13,954,033	$10,895,000
Ratio of Current Assets to Current Liabilities	1.67	1.62
Fixed Assets, net of depreciation	$33,931,127	$28,483,572
Common Shareholders' Equity	$19,943,801	$20,140,494

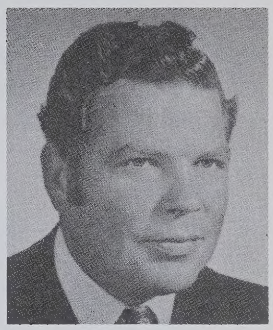
Valuation Day Price (December 22, 1971)

Common Shares	$9.50
Preference Shares ($5^1/_2$%)	$3.25

NATIONAL SEA PRODUCTS LIMITED

HEAD OFFICE — DUKE STREET TOWER
SCOTIA SQUARE
HALIFAX, NOVA SCOTIA

*H. P. Connor



*W. O. Morrow

BOARD OF DIRECTORS

*H. P. CONNOR, Halifax
FRANK M. COVERT, Q.C., Halifax
*J. B. ESTEY, Loggieville, N.B.
*C. R. MACFADDEN, Halifax
C. J. MORROW, Lunenburg
*J. B. MORROW, Lunenburg
*W. O. MORROW, Halifax
C. C. PRATT, St. John's
H. D. PYKE, Lunenburg
The Hon. H. J. ROBICHAUD, Fredericton
F. W. RUSSELL, St. John's
DAVID W. SMITH, South Carolina
P. J. SMITH, Annapolis Royal
R. G. SMITH, Halifax
W. W. SMITH, Lunenburg

*Member of the Executive Committee

OFFICERS

H. P. CONNOR	Chairman of the Board Chairman of Executive Committee
W. O. MORROW	President and Chief Executive Officer
C. R. MACFADDEN	Vice President, Finance and Treasurer
J. B. MORROW	Vice President, Production
I. H. LANGLANDS	Vice President, Development
P. R. SMITH	Vice President, Marketing
M. L. PITMAN	Comptroller
F. D. MCGEE	Secretary and Company Solicitor
J. C. WENNING	Assistant Treasurer

SUBSIDIARY COMPANIES

NATIONAL SEA PRODUCTS (U.S.) CORP. LIMITED
Tampa, Florida

NATIONAL SEA PRODUCTS INCORPORATED
Rockland, Me.

NATLAKE LIMITED
Burgeo, Nfld.

McDERMAID AGENCIES LIMITED
Halifax, Nova Scotia

AUDITORS:
Clarkson, Gordon & Co.
Chartered Accountants

TRANSFER AGENTS:
Common Shares
The Montreal Trust Company

Preference Shares
The Company, Secretary's Office
P.O. Box 2130, Halifax, N.S.

BANKERS:
The Royal Bank of Canada
The Bank of Nova Scotia

REPORT OF DIRECTORS

TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Company, including the financial statements and the report of the Company's auditors, for the fiscal year ended August 31st, 1974.

SALES

Your Company's sales and other revenue were a record $90,068,509 but only slightly higher than last year's sales of $89,409,285.

FINANCIAL RESULTS

Net Profit for the year was $330,821, down substantially from last year's profit of $3,815,687.

Your Company actually showed a loss from its fishing operations. The profit came from investment income and the disposal of fixed assets. Investment income which is mostly the insurance underwriting and investment income of Bermudian companies shows a substantial increase over last year. During the year we sold our Montreal Wholesale Division and a fire destroyed the buildings of our live lobster operation and office at St. Andrews.

Our fiscal year started off well and it looked at the beginning of the third quarter as though we were going to have a record year in sales, landings and profits. Earnings at the end of seven months were ahead of a year ago and while there were some signs of weakness in the market place, it was not a new experience for the fishing industry and we anticipated that it would take a few months to correct itself. Coupled with the weakness in the market, we witnessed a drastic fall-off in landings during the last five months. This was impossible to foresee. Many other situations developed in the latter part of the year which had an adverse effect on profits.

There were two short wildcat strikes by some of our trawler fishermen followed by a lengthy, illegal strike at St. John's, Newfoundland, again by our trawler fishermen. The trawler operation sustained a huge loss during this period.

Demand and selling prices, principally in the United States Market, declined drastically. For example, the price of shrimp for processing went down by more than $1.00 per pound.

The decline in demand in the United States, along with a continuation of high imports, particularly from Japan and Korea, resulted in a large increase in inventories. The high cost of carrying inventories, both storage charges and the unusually high interest rates, affected our earnings materially.

Lobster production dropped substantially. The Spring lobster operation showed a loss, whereas we normally have a profit during the Spring season.

The price of fishmeal dropped over 50% during the latter part of the year.

Our Perch Plant at Rockland, Maine, added to the losses. In fact, the decline in demand and price of perch became one of the most serious problems in the fishing industry on the continent.

Costs during the twelve month period continued their steady rise. Our new Wage Agreements in common with those of other industries, were settled with record increases. Costs of all materials used in our operations increased substantially. Fuel, which is a major item, practically doubled in price. Increases on trawl gear averaged over 50%, on packaging they varied from 20% to over 100%. All these additional inflationary costs came at a time when it was impossible for them to be recovered.

It is evident, therefore, that the disappointing results this year were not related to any one operation or segment of the business, but were due to a combination of many factors, most of which were difficult or impossible to control.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures for the year were $6,193,621 net after Government grants; $1,187,073 was spent on additions to our Trawler Fleet and $5,006,548 on extensions and improvements to existing trawler and land based facilities, principally at Tampa, Lockeport and St. John's, although improvements were made at all Plants.

Depreciation of Fixed Assets amounted to $3,173,680 compared to $2,903,360 last year.

FINANCIAL POSITION

During the year 1,938 common shares were issued on the conversion of $34,000 of debentures.

Working capital increased by $3,059,033 to $13,954,033.

Additions to long term debt, in the form of trawler mortgages, amounted to $961,791. We also arranged a five year term loan of U.S. $10,000,000 (Can. $9,853,100) with The Royal Bank of Canada.

After providing $1,911,704 for current instalment repayments, long term indebtedness totalled $24,984,527.

Item 8(a) in "Notes to Consolidated Financial Statements" refers to Income Taxes and is similar to the note on this subject that has appeared in our last four Annual Reports. There is nothing new to report on this matter and it is still under appeal.

EARNINGS AND DIVIDENDS

Common share earnings, after providing for preferred dividends, were 15¢ a share compared with $2.43 a share last year. The financial statements do not reflect the enhancement in fully diluted earnings per common share, which would have resulted from an assumed conversion of debentures in 1974, because your Directors felt that it was not appropriate to reflect an enhancement in earnings upon a hypothetical conversion. The enhancement would be brought about by the fact that no interest would have been paid on the debentures if a conversion took place. Cash flow amounted to $2.33 a share compared with $6.49 a share in 1973.

Semi-annual dividends on the preference shares were paid in January and July at the rate of 5½% per annum. Common dividends of 70.5¢ a share were paid on the Class "A" common shares and 59.9¢ were paid on the Class "B" common shares.

PROFIT SHARING FUND

We regret that for the second time since the Employees' Savings and Profit Sharing Fund came into existence, eleven years ago, the Company has not been able to make a contribution. According to the terms of the Fund, contributions can only be made from income from operations and as there was no income before the extraordinary income items, there was no contribution.

While this is disappointing to all participants, most members are looking at the long term benefits and we continue to encourage participation as it will play an important part upon their retirement from the Company.

HIGHLIGHTS

In November of last year we sold our Wholesale Division in Montreal. This business, which was never a large profit contributor, was the last of our wholesale operations, and it was felt that it was no longer a necessary part of the Company. Often we had found ourselves competing with our best customers. When the opportunity presented itself, we decided to sell. Our business in the Montreal area has not suffered as a result, and we continue to enjoy a good relationship with all of our distributors in this important growth market.

In January we concluded an agreement to manage the operations of the fish plant and trawler fleet owned by the Newfoundland Government at Burgeo. The government, in consultation with your Company, is presently examining the possibilities of constructing a new plant at this location, replacing the existing plant which is old and outdated. If a new plant is constructed, it will be on our property and merged with our food herring and reduction plant.

Landings during the year, after showing increases for the first seven months, declined substantially and as a result totalled 217,104,000 lbs., compared with 241,598,000 lbs., a year ago. This drop all occurred since April, because at the end of March, we were 9,000,000 lbs. ahead of a year ago.

This large decrease had a dramatic adverse effect on trawler operations, as well as on the overheads and productivity of our Groundfish Plants.

Our United States operations took heavy inventory losses due to the slowdown in demand and high inventory buildup, that developed during the year. The Shrimp Industry was particularly hard hit as the most drastic drop in the market occurred in the higher priced seafood items.

During the year construction was started on a new cold storage in Lockeport, which will be ready by late February. This addition will replace an old structure that was both inefficient and difficult to operate at proper temperatures. At Tampa, we have added approximately 50% to our Shrimp processing capacity by building a new extension to our Plant. We will not only gain additional volume, but also reduce our operating costs.

The St. John's operations, after getting off to an excellent start, were most disappointing. We encountered several difficulties in negotiating a contract with the shore workers. In July, along with most of the other major trawler operators in Newfoundland, we experienced a lengthly tieup of our trawlers, brought about by an illegal strike. While the trawlers are all back in operation, the basic issues are not finally resolved and the matter is now before a conciliation board.

Your Company continually strives to operate in an economic and efficient manner. During this time of increasing costs we have made special efforts to find new economies and efficiencies, and a special task force was formed for this purpose. This group, working in conjunction with the Managers of various sectors, have identified a number of opportunities which should assist your Company to return to a profitable operating position.

TRAWLER PROGRAM

During the year two new trawlers of the latest Fox Class joined our Fleet and in the autumn of 1975, we will be taking delivery of two additional trawlers. This will then complete our current building and replacement program. During the past year, we also retired three of our oldest trawlers.

For over a year, we have been developing plans for a new freezer-trawler, designed principally for fishing the North West Atlantic from the

Greenland/Labrador fishery to some of the areas not presently fished by Canadians in the more southern waters. Due to the high cost of ship construction and the necessity to curb capital expenditures, construction has been deferred until industry conditions improve.

INDUSTRIAL RELATIONS

In the past fiscal year Industrial Relations have been good, except in Newfoundland. The major Collective Agreement with plant employees in our five Nova Scotia Groundfish Plants was successfully concluded, without a work stoppage. Relatively high settlements in this Agreement, as well as other Industrial Agreements, resulted in reopening existing contracts, in return for extensions of time at Pictou, St. Andrews, Summerside and Shippegan.

During the year a two year Collective Agreement was successfully concluded with the Scallop Fishermen.

The Rockland, Maine Division contracts terminating in November, 1975 were signed with both the plant workers and the fishermen.

In an endeavour to avoid the continuation of wildcat strikes, at our St. John's plant, we offered to reopen and extend the contract expiring June 30, 1974. When, however, this proved impossible a new 18 month contract was finally negotiated.

While the Contract with the Newfoundland trawler fishermen does not expire until January 1975, it was ignored by the fishermen in July, when the Union decided to extend its Inshore Fishermen's dispute with another Company into a struggle on philosophic grounds with trawler owners. Legal action has been taken and after a two month illegal strike, a Conciliation Board is trying to settle the dispute on an industry wide basis. This Fishermen's dispute also spilled over into Burgeo, where earlier in the year, the Burgeo Plant Workers and Fishermen's Agreements had been concluded in an amiable manner.

THE RESOURCE

While no Agreements were concluded at the Law of the Sea Conference, held in Caracas this past summer, important strides were, nevertheless, made and Canada's position received a general degree of acceptance. A further Conference will be held in Geneva next Spring, and hopefully, a treaty on the Law of the Sea will be reached later in the year.

We continue to urge our Government to take a stronger position on international fishery matters and put into effect actual Management practices, even on a voluntary basis, as it could well be several years before all countries reach international agreement. In the meantime, stricter Management and Conservation measures are necessary if we are to have a continuing economic fishery off the East Coast.

DIRECTORS

Mr. H. D. Pyke, a director since 1962, has expressed his intention not to offer for re-election to the Board at the annual meeting in December 1974. His fellow directors will miss his wise counsel and his keen interest in the affairs of the Board. We are pleased to report, however, that he is remaining as an executive of the Company where his long experience and special expertise in the field of international fishery affairs and production and quality control matters, will continue to be of special value to the Company.

APPRECIATION

The Board of Directors would like to express the appreciation of the Shareholders to all of our employees and fishermen, for the valuable contribution they have made during this past year, which must be considered a most difficult one. The loyalty and dedication of our people is very much appreciated and must be considered one of our greatest assets. With the continuation of this support we feel the Company can, and will, meet the challenges of the future.

OUTLOOK

In the short term, with the likelihood of continuing low landings for the first quarter, and only a modest recovery in the demand for fishery products, it is difficult to be optimistic. We believe, however, an improvement will take place in the second quarter, and if more normal landings take place, we should return to a profitable position. Inflation is a cause for deep concern and must be brought back to a more reasonable level before one can be confident about the future.

In the long term, the future for the East Coast fishing industry looks bright. Everything points to a shortage of protein in the world for years to come. After the finalization of the Law of the Sea Conference, Canada is expected to be given a much larger share of the catch of one of the largest and potentially rich fishing grounds in the world. As one of the leading companies on the Atlantic East Coast we will endeavour to take advantage of every opportunity.

On behalf of the Board of Directors,

W. O. Morrow

W. O. Morrow
President

Halifax, N.S.
November 5, 1974

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statements of Consolidated Income and Retained Earnings

for the year ended August 31, 1974
(with comparative figures for the year ended August 31, 1973)

		1974	1973
STATEMENT OF INCOME	Net sales	$90,068,509	$89,409,285
	Cost of sales	78,161,921	71,321,032
		11,906,588	18,088,253
	Selling, general and administrative expenses	8,024,292	6,737,418
	Income from operations before the following	3,882,296	11,350,835
	Add:		
	Investment income	405,432	277,089
		4,287,728	11,627,924
	Deduct:		
	Interest on long-term debt	1,238,581	1,031,578
	Contribution to Employees' Savings and Profit Sharing Retirement Fund	—	769,299
	Provision for depreciation	3,173,680	2,903,360
		4,412,261	4,704,237
	Income (loss) before income taxes	(124,533)	6,923,687
	Recovery of (provision for) income taxes (notes 6 and 8)	122,000	(3,108,000)
	Income (loss) before extraordinary item	(2,533)	3,815,687
	Extraordinary gain on disposal of fixed assets, net of income taxes of $43,000	333,354	—
	Net income for the year (note 8)	$ 330,821	$ 3,815,687
	Earnings per common share:		
	Income (loss) before extraordinary item	$(.07)	$2.43
	Net income for the year	$ .15	$2.43
	Fully diluted earnings per common share:		
	Income (loss) before extraordinary item	$(.07)	$2.28
	Net income for the year	$ .15	$2.28
RETAINED EARNINGS	Balance, beginning of year	$14,190,563	$11,260,727
	Add net income for the year	330,821	3,815,687
		14,521,384	15,076,414
	Dividends:		
	Preference	106,118	184,129
	Common	1,053,701	701,722
		1,159,819	885,851
	Balance, end of year	$13,361,565	$14,190,563

See accompanying notes to financial statements

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ASSETS

	1974	1973
Current:		
Cash	$ 277,008	$ 547,697
Accounts receivable - trade	7,593,144	8,755,211
Accounts receivable - fishermen, government grants and other	3,693,595	1,900,802
Income taxes recoverable	379,169	—
Inventories of marketable products and supplies	22,227,483	16,795,536
Prepaid expenses	629,479	535,010
Total current assets	34,799,878	28,534,256
Fixed (note 2)	33,931,127	28,483,572
Other:		
Investments in shares (note 3)	3,060,208	2,956,018
Sundry investments, government grants receivable and goodwill	1,399,720	1,318,626
	4,459,928	4,274,644
	$73,190,933	$61,292,472

On behalf of the Board:
H. P. Connor, Director
W. O. Morrow, Director

See accompanying no

)DUCTS LIMITED

he Province of Nova Scotia)

companies

alance Sheet

1974
at August 31, 1973)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current:		
Bank indebtedness	$10,694,002	$ 7,308,183
Notes payable	282,000	300,000
Accounts payable and accrued charges	7,181,447	8,195,236
Income taxes payable	776,692	187,633
Instalments on long-term debt due within one year	1,911,704	1,648,204
Total current liabilities	20,845,845	17,639,256
Long-term debt (notes 4 and 5)	24,984,527	15,519,177
Deferred income taxes (note 8)	5,487,385	6,064,170
Shareholders' equity (note 5):		
Capital -		
385,875 Preference shares	1,929,375	1,929,375
1,495,231 Common shares	4,846,201	4,812,201
	6,775,576	6,741,576
Contributed surplus	1,736,035	1,137,730
Retained earnings (note 8)	13,361,565	14,190,563
Total shareholders' equity	21,873,176	22,069,869
	$73,190,933	$61,292,472

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NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statement of Changes in Consolidated Financial Position

for the year ended August 31, 1974
(with comparative figures for the year ended August 31, 1973)

		1974	1973
SOURCE OF FUNDS	Net income for the year	$ 330,821	$ 3,815,687
	Add charges not represented by cash outlay during the year —		
	Depreciation	3,173,680	2,903,360
	St. John's pre-production costs	—	348,048
	Portion of tax provision applicable to future years	89,949	2,815,112
	Total funds provided from operations and extraordinary item	3,594,450	9,882,207
	Increase in long-term debt (other than mortgages)	9,853,100	—
	Increase in mortgages	961,791	4,024,433
	Disposal of fixed assets	146,354	1,435,796
	Issue of common shares	34,000	—
	Issue of subordinated preference shares	—	35,520
	Total funds provided	14,589,695	15,377,956
APPLICATION OF FUNDS	On consolidation of effectively controlled company (note 3) —		
	Fixed assets	2,573,968	
	Less:		
	Long-term debt (excluding current portion of $254,246)	776,917	
	Contributed surplus arising on government grant	598,305	
	Reduction in investment in shares	362,939	
		1,738,161	
	Net reduction in working capital	835,807	—
	Additions to fixed assets (net of government grants, $456,000; 1973, $526,240)	6,193,621	7,666,572
	Instalments on long-term debt due within one year	1,657,458	1,648,204
	Debentures purchased for future sinking fund payments	435,000	—
	Dividends paid	1,159,819	885,851
	Prior years income taxes (note 8)	666,734	728,802
	Increase in other assets	548,223	540,736
	Debentures converted to common shares	34,000	—
	Preference shares redeemed	—	974,454
	Total funds applied	11,530,662	12,444,619
	Increase in working capital	3,059,033	2,933,337
	Working capital, beginning of year	10,895,000	7,961,663
	Working capital, end of year	$13,954,033	$10,895,000

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Notes to Consolidated Financial Statements

August 31, 1974

1. Summary of significant accounting policies

(a) Basis of consolidation

The accompanying financial statements consolidate the accounts of the Company and all its subsidiaries.

(b) Exchange translation

The financial statements of foreign subsidiaries have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the year; non-current assets, long-term debt and depreciation provisions on the basis of rates in effect at the date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates prevailing during the year.

(c) Inventory valuation

Inventories are valued at the lower of cost and net realizable value with cost determined principally on a first-in first-out basis.

(d) Fixed assets

Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line basis at the following rates:

Brick buildings	4%
Wooden buildings and wharves	5%
Machinery and equipment	5% and 10%
Trawlers	8% for 5 years and 6% for next 10 years
Other	10% and 25%

(e) Investments in shares

These investments represent companies in which National Sea Products Limited has a substantial interest and are carried at National's equity in their net assets; current income is recognized on the basis of National's share of their net earnings.

(f) Goodwill

Goodwill arising from the acquisition of a business is recorded at cost and is being written off on the straight-line basis at a rate of 10% per annum. The unamortized balance is $196,831 as at August 31, 1974.

2. Fixed assets

Major categories of fixed assets are:

	1974	1973
Land	**$ 1,143,276**	$ 680,169
Buildings, wharves, machinery and other	**34,027,899**	28,234,529
Trawlers	**25,116,884**	23,402,564
	60,288,059	52,317,262
Less accumulated depreciation:		
Buildings, wharves, machinery and other	**16,339,170**	14,745,041
Trawlers	**10,729,460**	9,088,649
	27,068,630	23,833,690
	33,219,429	28,483,572
Trawlers under construction	**711,698**	—
	$33,931,127	$28,483,572

3. Investments in shares

(a) The net assets of these companies include a claim receivable of approximately $200,000 which the directors of the subject company, supported by advice of legal counsel, are of the opinion will be successfully sustained.

(b) As at August 31, 1974 the Company consolidated the accounts of an effectively controlled company which holds certain fixed assets used in consolidated operations.

4. Long-term debt

Particulars of long-term debt are:

Secured —	**1974**	1973
First Mortgage and Collateral Trust Serial Bonds:		
*6¼% Series "A" due 1974	**$ —**	$ 100,000
*6½% Series "A" due 1975-1979	**500,000**	500,000
*7½% Series "B" due 1975-1977	**1,300,000**	1,600,000
	1,800,000	2,200,000

Trawler mortgage loans:		
$4^1/_2$% due 1974	**—**	4,110
$5^1/_2$% due 1974	**—**	35,628
$4^1/_2$% due 1975	**1,976**	5,928
$4^1/_2$% due semi-annually to 1976	**19,446**	30,446
$5^1/_2$% due semi-annually to 1976	**24,111**	—
$5^1/_2$% due semi-annually to 1978	**255,165**	315,354
4% due annually to 1978	**83,784**	104,984
$5^1/_2$% due semi-annually to 1979	**340,027**	412,461
$5^1/_2$% due semi-annually to 1980	**183,527**	217,753
6% due monthly to 1980	**24,197**	27,690
$5^1/_2$% due semi-annually to 1981	**158,337**	181,813
$6^1/_2$% due semi-annually to 1981	**42,128**	48,146
$5^1/_2$% due semi-annually to 1982	**128,767**	144,832
$6^1/_2$% due semi-annually to 1983	**2,076,884**	2,295,342
9% due semi-annually to 1989	**1,062,705**	1,099,350
$8^5/_8$% due semi-annually to 1991	**4,562,425**	4,423,730
9% due semi-annually to 1994	**548,112**	—
	9,511,591	9,347,567
Other:		
×Bank indebtedness bearing interest at $1^1/_2$% above the base bank lending rate for U.S. dollars in Canada, due $10,000,000 U.S. 1976 to 1980, secured by a floating charge on the Company's assets	**9,853,100**	—
6% first mortgage bonds due 1974	**5,000**	25,000
3% mortgage due annually to 1976	**95,455**	143,182
6% mortgage due semi-annually to 1976	**160,000**	240,000
$8^1/_2$% mortgage due semi-annually to 1984	**1,088,244**	1,155,163
8% mortgage due semi-annually to 1988	**1,367,500**	1,462,500
Mortgage due annually to 1977 bearing interest at $1^1/_2$% above bank prime lending rate	**800,000**	—
7.15% mortgage due annually to 1996	**231,163**	—
	13,600,462	3,025,845
Unsecured —		
*$6^3/_4$% Convertible Subordinated Sinking Fund Debentures Series "A" due 1981	**2,360,000**	2,469,000
Less debentures held for Sinking Fund	**435,000**	—
	1,925,000	2,469,000
Term bank loan bearing interest at $1^1/_2$% above U.S. bank prime lending rate due $60,000 U.S. annually to 1975	**59,178**	124,969
	1,984,178	2,593,969
	26,896,231	17,167,381
Less instalments due within one year included in current liabilities	**1,911,704**	1,648,204
	$24,984,527	$15,519,177

*On August 31, 1973, the bond and debenture holders agreed that certain covenants relating to incurring additional long-term debt would be made less restrictive in consideration for a $^1/_2$% increase in the interest rates on the bonds and debentures effective September 15, 1973. The above listed interest rates reflect this increase.

×On September 30, 1974 arrangements were concluded with the Company's bankers to refinance current bank indebtedness on a term basis as reflected above.

Principal and sinking fund payments required in each of the next five fiscal years:

1975	$1,900,000
1976	2,800,000
1977	3,300,000
1978	2,500,000
1979	1,900,000

5. Shareholders' equity

(a) Details of share capital are:

	Authorized Shares	Issued and Outstanding August 31, 1974 Shares	$	August 31, 1973 Shares	$
$5\frac{1}{2}\%$ Class C cumulative redeemable convertible preference shares of the par value of $5 each, redeemable at par	600,000	342,890	$1,714,450	343,440	$1,717,200
$5\frac{1}{2}\%$ Class D cumulative redeemable convertible preference shares of the par value of $5 each, redeemable at par	400,000	42,985	214,925	42,435	212,175
Subordinated redeemable preference shares of the par value of $1 each, redeemable at par (authorized at August 31, 1973: 2,000,000 shares)	1,025,546	—	—	—	—
Class A convertible common shares without nominal or par value	3,000,000	1,324,092	4,291,311	1,262,193	4,067,471
Class B convertible common shares without nominal or par value	3,000,000	171,139	554,890	231,100	744,730
			$6,775,576		$6,741,576

The Class A and Class B convertible common shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Similarly, the Class C and Class D convertible preference shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Provision is made whereby dividends on the Class B convertible common and Class D convertible preference shares may be paid in the form of tax deferred dividends; in this event, the conditions attaching to the Class B convertible common and Class D convertible preference shares provide that a suitable deduction from the dividends be made for taxes, if any, payable by the Company with respect to such dividends.

(b) Conversion privileges

Each $1,000 principal amount of $6\frac{3}{4}\%$ Convertible Subordinated Sinking Fund Debentures Series "A" due 1981 is convertible into 57 common shares of the Company up to March 15, 1976.

(c) Changes in issued capital during the year

1,938 common shares issued upon the conversion of $34,000 of debentures.

(d) Trust Deed restrictions

The Trust Deed securing the First Mortgage and Collateral Trust Serial Bonds and the Trust Indenture securing the $6\frac{3}{4}\%$ Convertible Subordinated Sinking Fund Debentures Series "A" contain certain restrictions including, among others, restrictions as to payment of dividends, reduction of capital, and retirement of subordinated debentures in the event of consolidated working capital (without deducting the portion of long-term debt due within one year) being less than $6,000,000 or consolidated retained earnings being less than $4,400,000.

6. Income taxes

Losses of U.S. subsidiaries are carried forward in the amount of $557,000 to be applied to future income in computing the provision for income taxes. The resulting reduction in the provision for income taxes has not been reflected in these consolidated financial statements.

7. Commitments

(a) Rentals aggregating approximately $250,000 per annum through 1993 are payable under long-term leases for facilities in Lunenburg.

(b) The Company has approved an Executive and Management Pension Plan for personnel designated by the Company and will introduce the plan upon approval by the Department of National Revenue. Estimated past service costs of $425,000 will be funded and amortized by the Company in equal annual amounts over the next fifteen years.

(c) The Company has several forward exchange contracts for the sale, in the aggregate, of $2,300,000 U.S. for $2,216,190 Canadian.

8. Contingencies

(a) As noted in previous years, the Department of National Revenue has issued notices of reassessment for the period 1966 to 1971 inclusive. During the 1974 fiscal year the Department also issued a notice of reassessment for the year 1972. The Company's professional advisors are of the opinion that the reassessments should be appealed and that no provision for additional income taxes is necessary in the financial statements. Accordingly, the Company has filed appeals in the Federal Court of Canada in respect to 1966 to 1969 and Notices of Objection relative to 1970, 1971 and 1972 and has not made a provision for income taxes relative thereto.

If each of the various principles on which the reassessments are based was to be upheld in its entirety, the effect would be to increase the provision for income taxes and to reduce net income by approximately $400,000 for 1974, $400,000 for 1973, $400,000 for 1972, $400,000 for 1971, $500,000 for 1970 and $2,400,000 for prior years.

Because of the availability of capital cost allowances, only $1,592,376 has become payable for reassessed income taxes. This amount has been paid or is currently payable and deferred income taxes reduced by a corresponding amount. In respect to amounts which may be reassessed for 1973 and 1974, $1,075,000 would become currently payable, based on present availability of capital cost allowances. The balance of taxes would become payable only as and when recorded depreciation exceeds capital cost allowances now available and becoming available from future capital expenditures.

(b) Guarantees by the Company of indebtedness of suppliers (including fishermen's notes and mortgages) amount to approximately $319,000.

9. Statutory information

Remuneration of Directors and senior officers was $343,000 (1973-$326,000).

AUDITORS' REPORT

To the Shareholders of
National Sea Products Limited:

We have examined the consolidated balance sheet of National Sea Products Limited and its subsidiary companies as at August 31, 1974 and the statements of consolidated income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to successful appeal from the reassessments of income tax described in note 8 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Halifax, Canada
October 15, 1974

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Comparative Financial Information for 1970-74

(all amounts are expressed in thousands, except as indicated +)

		1974	1973	1972	1971	1970
Working Capital	$	13,954	10,895	7,962	10,513	8,314
Plant, Equipment, Trawlers and other Fixed Assets after Depreciation	$	33,931	28,484	25,504	19,899	18,093
Total Assets	$	73,191	61,292	54,779	48,188	42,095
Accumulated Deferred Income Taxes	$	5,487	6,064	3,978	2,979	2,392
Long Term Debt	$	24,985	15,519	13,143	12,220	11,099
Shareholders' Equity:						
Preference Shares	$	1,929	1,929	1,929	1,929	1,929
Second Preference Shares	$	—	—	—	—	169
Subordinated Preference Shares	$	—	—	939	—	—
Common Shares	$	4,846	4,812	4,812	4,812	2,729
Contributed Surplus	$	1,736	1,138	1,138	1,071	969
*Retained Earnings	$	13,362	14,191	11,261	10,226	9,195
Total Shareholders' Equity	$	21,873	22,070	20,079	18,038	14,991
Additions to Plant, Equipment, Trawlers and other Fixed Assets during the year	$	6,194	7,667	7,715	3,739	2,201
Fish Landings (lbs)		217,000	242,000	196,000	192,000	186,000
Herring Purchased for Reduction (lbs)		5,000	17,000	52,000	98,000	143,000
Net Sales	$	90,069	89,409	69,319	63,363	64,950
Depreciation	$	3,174	2,903	2,046	1,871	1,879
Income Taxes	$	(122)	3,108	983	718	1,012
*Net Income	$	331	3,816	1,804	1,678	1,866
Dividends on Preference Shares	$	106	184	111	.112	194
Dividends on Common Shares	$	1,054	702	657	535	395
*Earnings Retained in Business for Expansion	$	(829)	2,930	1,035	1,031	1,278
*Earnings per average number of Common Shares Outstanding	+	$.15**	$2.43	$1.13	$1.19	$1.40
Common Dividends paid per share — Class A	+	70.5¢	47c	44c	42c	33c
Common Dividends paid per share — Class B	+	59.9¢	39.9c	—	—	—
*Earnings as a Percentage of Sales	+	0.4%	4.3%	2.6%	2.6%	2.9%
Cash Flow per average number of Common Shares Outstanding	+	$2.33	$6.49	$3.17	$3.04	$3.61
Number of Common Shares Outstanding at Year End	+	1,495,231	1,493,293	1,493,293	1,493,293	1,196,143

**includes extraordinary gain of $.22 per Common Share.

*1970 does not reflect the change adopted in 1972 for the equity method of accounting for investment income.

High Liner

National Sea Products Limited

Halifax, Nova Scotia